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TO SECSTATE WASHDC 6891  
INFO USDOC WASHDC  
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DEPT OF TREASURY WASHDC  
AMEMBASSY LIMA  
AMEMBASSY CARACAS  
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E.O. 12958: DECL: 09/08/10  
TAGS: EPET, ENRG, PTER, ECON, EINV, SENV, CO  
SUBJ: GUERRILLAS GO AFTER OIL PIPELINES, ECONOMY SUFFERS

CLASSIFIED BY AMBASSADOR ANNE W. PATTERSON. REASONS:

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UNITED STATES DEPARTMENT OF STATE  
REVIEW AUTHORITY: OSCAR J OLSON  
DATE/CASE ID: 19 MAY 2004 200303455

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1.5(D)

REFS: A) BOGOTA 7473 B) BOGOTA 963 C) BOGOTA 1785

SUMMARY

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1. (U) A WAVE OF TERRORIST ATTACKS BY THE ELN GUERRILLAS AGAINST THE CANO LIMON-COVENAS PIPELINE, WHICH TRANSPORTS ROUGHLY 15 PERCENT OF COLOMBIA'S DAILY PRODUCTION FROM A U.S. OCCIDENTAL PETROLEUM CONCESSION, COULD THREATEN ECONOMIC RECOVERY HERE IF IT CONTINUES UNCHECKED. THERE IS PROBABLY ENOUGH EXTRA CAPACITY IN THE PIPELINE, HOWEVER, TO RECOVER LOSSES THUS FAR IF THE ATTACKS TAIL OFF NOW. THE OCENSA PIPELINE, WHICH TRANSPORTS HALF OF COLOMBIA'S DAILY OIL PRODUCTION FROM A MASSIVE BP/AMOCO FIELD, REMAINS RELATIVELY UNSCATHED. THIS IS GOOD NEWS SINCE AN EXTENDED SHUT DOWN OF OCENSA WOULD REVERSE THE COUNTRY'S ALREADY SLUGGISH ECONOMIC TURNAROUND. A THIRD PIPELINE IN SOUTHERN COLOMBIA ALSO TOOK A BEATING IN  
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AUGUST, BUT IT PUMPS ONLY A MODEST VOLUME OF OIL. NEWS OF THE PIPELINE ATTACKS CONTRIBUTES TO FOREIGN INVESTORS' CONCERNS REGARDING SECURITY AND MAY DO MORE TO DAMAGE COLOMBIA'S ECONOMY OVER THE LONG TERM THAN ANYTHING ELSE.  
END SUMMARY.

AT THE HEART OF RECOVERY

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2. (U) THE PETROLEUM INDUSTRY HAS BREATHED MORE LIFE INTO COLOMBIA'S MODEST ECONOMIC RECOVERY (REF A) THAN ANY OTHER INDUSTRIAL SECTOR. AT A VALUE OF OVER USD FOUR BILLION (OR ROUGHLY FOUR PERCENT OF GDP), OIL EXPORTS WILL REPRESENT ROUGHLY 35 PERCENT OF COLOMBIA'S EXPORTS IN 2000, ACCORDING TO STATE OIL COMPANY ("ECOPETROL") REPORTS. MINISTRY OF FOREIGN TRADE STATISTICS SUGGEST THAT OIL EXPORTS WILL EXCEED COFFEE EXPORTS, COLOMBIA'S SECOND MOST VALUABLE (LICIT) COMMODITY, BY ALMOST TWENTY PERCENT IN 2000. TRADITIONALLY THE HYDROCARBON SECTOR RECEIVES THE HIGHEST VOLUME OF FOREIGN INVESTMENT IN COLOMBIA, AND ECOPETROL EXPECTS IT TO ATTRACT OVER USD 416 MILLION IN 2000.

3. (SBU) A BP/AMOCO ANALYST TOLD ECONOFF THAT THE HIGH VALUE OF OIL EXPORTS OVER THE LAST TWELVE MONTHS HAD ALLOWED THE GOC TO AVERT A BALANCE OF PAYMENTS CRISIS AND ACCOMPANYING CURRENCY DEVALUATION. ECOPETROL'S PRESIDENT, ALBERTO CALDERON, HAS STATED THAT PETRO-DOLLARS WILL

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REDUCE THE COUNTRY'S BALANCE OF PAYMENTS DEFICIT FROM FOUR TO AN AFFORDABLE TWO PERCENT OF GDP. A PRESTIGIOUS BOGOTA-BASED ECONOMIC THINK TANK ("FEDESARROLLO") REPORTED THAT WITHOUT OIL, COLOMBIA'S FISCAL DEFICIT WOULD BE OVER  
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FOUR PERCENT OF GDP. FEDESARROLLO HAS FORECAST A FISCAL DEFICIT OF 3.4 PERCENT OF GDP IN 2000, WHICH FALLS JUST WITHIN THE IMF TARGET OF 3.6 PERCENT. IN SEVERAL RECENT SPEECHES, ALBERTO CALDERON HAS PROUDLY NOTED THAT ECOPETROL TRANSFERRED APPROXIMATELY USD 1.5 BILLION INTO CENTRAL GOVERNMENT COFFERS IN 1999 AND LOOKS TO TRANSFER AN ADDITIONAL USD 1.7 BILLION IN 2000 - OR ABOUT SEVENTY PERCENT OF THE TOTAL VALUE OF GOC TRANSFERS TO THE DEPARTMENTS FOR HEALTH AND EDUCATION. ECOPETROL'S TRANSFERS TO THE CENTRAL GOVERNMENT MEANS THAT THE GOC CAN BORROW LESS TO COVER ITS DEFICIT, WHICH HELPS GIVE A MEASURE OF RELIEF FROM UPWARD PRESSURE ON INTEREST RATES.

ELN SLASHES A CRITICAL ARTERY  
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4. (C) CITING THE VISIT OF PRESIDENT CLINTON AND THE LAUNCH OF PLAN COLOMBIA, THE ELN GUERRILLAS HAVE STAGED 21 TERRORIST ATTACKS AGAINST THE CANO LIMON-COVENAS PIPELINE SINCE JULY 23. THIS PIPELINE, THE SECOND MOST IMPORTANT IN COLOMBIA, DELIVERS AN AVERAGE OF 105,000 BARRELS PER DAY (BPD) (NEARLY FIFTEEN PERCENT OF COLOMBIA'S TOTAL DAILY PRODUCTION) TO THE PORT CITY OF COVENAS FROM U.S. OCCIDENTAL PETROLEUM'S (OXY) CANO LIMON FIELD IN ARAUCA DEPARTMENT. AT A PRICE OF OVER USD 30 DOLLARS PER BARREL, LOST OIL COSTS THE CASH-STRAPPED GOC OVER USD 2.6 MILLION

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FM AMEMBASSY BOGOTA  
TO SECSTATE WASHDC 6892  
INFO USDOC WASHDC  
DEPT OF ENERGY WASHDC  
DEPT OF TREASURY WASHDC  
AMEMBASSY LIMA  
AMEMBASSY CARACAS  
AMEMBASSY QUITO  
AMEMBASSY LA PAZ  
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PER DAY (BASED ON AN 85 PERCENT "TAKE" CONSISTING OF  
TAXES, ROYALTIES AND ECOPETROL'S SHARE OF PRODUCTION).  
ECOPETROL ESTIMATES THAT THE ELN HAS DEPRIVED THE  
COLOMBIAN PEOPLE OF USD 120 MILLION SINCE THE ATTACKS  
BEGAN IN LATE JULY. ACCORDING TO MEDIA REPORTS, THE  
IMPOVERISHED AND GUERRILLA-RIDDEN DEPARTMENT OF ARAUCA  
(REF B) LOSES OVER USD 300,000 PER DAY (OR 90 PERCENT OF  
ITS REVENUE).

5. (U) ACCORDING TO ECOPETROL, COLOMBIA FAILED TO EXPORT  
ANY OF CANO-LIMON'S OIL DURING AUGUST AS A RESULT OF THE  
ATTACKS. OXY DECLARED "FORCE MAJEURE" ON AUGUST 9, WHICH  
HAS ALLOWED IT TO BREAK COMMITMENTS WITH INTERNATIONAL  
BUYERS OF ITS CRUDE.

[REDACTED] TOLD ECONOFF THAT CANO-LIMON'S CRUDE NOW TRADES  
AT USD TWO TO FOUR BELOW NORMAL BECAUSE OF UNCERTAINTY  
REGARDING DELIVERY. ECOPETROL HAS REFRAINED FROM

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DECLARING FORCE MAJEURE, THOUGH IT HAS HAD TO RENEGOTIATE  
(SO FAR WITHOUT PENALTY) THE SHIPMENT OF OVER ONE MILLION  
BARRELS OF CRUDE. THE STATE OIL COMPANY, HOWEVER, HAS  
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BEGUN TO PAY COMPENSATION TO OXY FOR A PORTION OF ITS  
LOSS, ACCORDING TO DOMINGUEZ.

THE RELATIVELY GOOD NEWS: OCENSA OK

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6. (SBU) FIFTY PERCENT OF COLOMBIA'S DAILY OIL PRODUCTION  
FLOWS THROUGH THE "OCENSA" PIPELINE, WHICH CARRIES CRUDE  
FROM BP/AMOCO'S MASSIVE CUSIANA-CUPIAGUA FIELD (CASANARE  
DEPARTMENT) TO COVENAS. OCENSA HAS SUFFERED ONLY 10  
ATTACKS IN 2000 WITH A PRODUCTION LOSS OF LESS THAN 1,000  
BARRELS, ACCORDING TO A BP/AMOCO REPORT THAT LINKED BOTH  
ELN AND FARC GUERRILLAS TO THE SABOTAGE. A BP/AMOCO  
ANALYST TOLD ECONOFF THAT HE SUSPECTS THAT THE OCTOBER  
1998 MACHUCA TRAGEDY (IN WHICH THE ELN NEARLY INCINERATED  
AN ENTIRE VILLAGE DURING AN ATTACK ON THE OCENSA PIPELINE)  
CONTINUES TO SERVE AS A DETERRENT TO MORE FREQUENT  
SABOTAGE. BRITISH PETROLEUM ALSO DESIGNED OCENSA BASED ON  
LESSONS LEARNED FROM CANO LIMON-COVENAS: OCENSA USES  
THICKER TUBING AND LIES TWO FEET BELOW GROUND. "IT TAKES  
MORE THAN THREE GUYS WITH A PICK-AX AND AN HOUR TO KILL TO  
BUST OPEN OUR PIPELINE," THE BP/AMOCO ANALYST REPORTED TO  
ECONOFF WHEN ASKED TO CONTRAST COLOMBIA'S TWO MAIN OIL  
ARTERIES. THE ANALYST ALSO CREDITED THE 16TH BRIGADE WITH  
PROVIDING "VERY GOOD" PROTECTION FOR THE PIPELINE.

TRANSANDEAN TROUBLES

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7. (C) IN SOUTHERN COLOMBIA, THE TRANSANDEAN PIPELINE  
CARRIES AN AVERAGE OF 22,000 BARRELS PER DAY OF OIL FROM  
ORITO (PUTUMAYO DEPARTMENT) TO THE PORT CITY OF TUMACO  
(NARINO DEPARTMENT). IT ALSO ACCOMMODATES UP TO 50,000  
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BARRELS FROM ECUADOR. U.S. INDEPENDENT ARGOSY  
INTERNATIONAL PUMPS ROUGHLY 3,000 BARRELS PER DAY INTO THE  
TRANSANDEAN PIPELINE FROM ITS PRODUCTION AREA, WHICH LIES  
ROUGHLY 15 MILES EAST OF VILLA GARZON IN PUTUMAYO (REF C).

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